

**ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

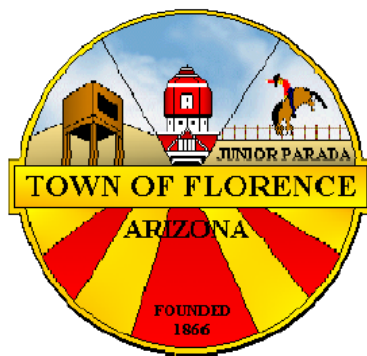


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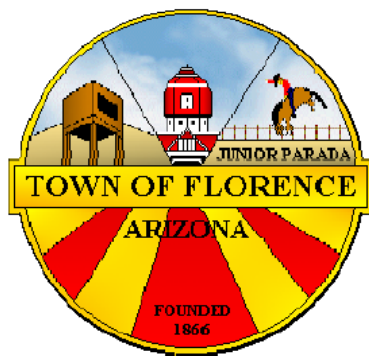
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FINANCIAL SECTION





Independent Auditors' Report

The Honorable Mayor and Council
Town of Florence, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Florence (the Town), Arizona, as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Florence, Arizona, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention that caused us to believe that the Town of Florence failed to use highway user revenue fund monies received by the Town of Florence pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the Town of Florence solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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The Honorable Mayor and Council
Town of Florence, Arizona
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In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2008 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

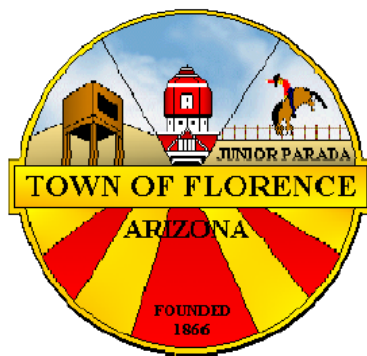
The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "H. H. H. H.", is positioned above the date and location.

September 22, 2008
Casa Grande, Arizona

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

This discussion and analysis is intended to be an easily readable breakdown of the Town of Florence financial activities based on currently know facts, decisions and conditions. This analysis focuses on current year activities and operations and should be read in combination with the transmittal letter that begins on page one and the financial statements that follow.

Report Layout

Besides the Management's Discussion and Analysis, (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of nonmajor funds and supplementary information.

The first several statements are highly condensed and present a government-wide view of the Town's finances and operations. Within this view, all Town operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services like public safety, culture and recreation, community development, public works and general governmental administration. Business-type activities are water, sewer, and sanitation. The government-wide statements include the Statement of Net Assets and Statement of Activities. The Town's component unit, the North Florence Improvement District No. 1, Merrill Ranch Community Facilities District No. 1 and Merrill Ranch Community Facilities District No. 2 is included within the government type activities.

Statement of Net Assets

The Statement of Net Assets presents the unrestricted assets of governmental and business-type activities. Governmental and Business-type activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities have long reported capital assets and long term liabilities.

Net assets, the difference between assets and liabilities provide a measure of the Town's financial strength, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the Town's privilege tax or property tax base or the condition of roads, parks and libraries to accurately assess the overall health of the Town.

Statement of Activities

The Statement of Activities presents the major program costs and matches major resources with each. To the extent that direct charges and grants do not recover a program's cost, it is paid from general taxes and other resources. The statement simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

Following the government-wide statements is a section containing fund financial statements. These statements reinforce information in the government-wide financial statements or provide additional information. The Town's major funds are presented in a separate column titled, "Other Governmental Funds". For each major

fund, a Budgetary Comparison Statement is presented. Users who want to obtain information on nonmajor funds can find it in the Combining Schedules of Nonmajor Funds and/or the Supplemental Information-Budgetary Comparison Schedules of this report. Finally, the report provides a series of other financial and statistical schedules.

The MD&A is intended to explain significant changes in the financial position and differences in operations between the current and prior year.

Town as a Whole

A condensed version of the Statement of Net Assets at June 30, 2008 follows.

Condensed Statement of Net Assets (in Thousands)						
	Governmental Activities		Business-type Activities		Total Government	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 38,148	\$ 36,600	\$ 9,233	\$ 7,103	\$ 47,381	\$ 43,703
Capital assets	57,783	46,689	12,517	12,439	70,300	59,128
Total assets	<u>\$ 95,931</u>	<u>\$ 83,289</u>	<u>\$ 21,750</u>	<u>\$ 19,542</u>	<u>\$ 117,681</u>	<u>\$ 102,831</u>
Other liabilities	3,031	2,970	527	661	3,558	3,631
Long-term liabilities	6,812	7,236	5,874	5,017	12,686	12,253
Total liabilities	<u>\$ 9,843</u>	<u>\$ 10,206</u>	<u>\$ 6,401</u>	<u>\$ 5,678</u>	<u>\$ 16,244</u>	<u>\$ 15,884</u>
Net assets:						
Invested capital assets						
net of related debt	50,480	38,967	6,314	7,146	56,794	46,113
Restricted	22,965	24,945	1,014	894	23,979	25,839
Unrestricted	12,643	9,171	8,022	5,824	20,665	14,995
Total net assets	<u><u>\$86,088</u></u>	<u><u>\$73,083</u></u>	<u><u>\$15,350</u></u>	<u><u>\$13,864</u></u>	<u><u>\$101,438</u></u>	<u><u>\$ 86,947</u></u>

Statement of Net Assets at June 30, 2008:

During fiscal year 2007-2008 several major events changed the balance of net assets:

The Town's overall financial position has improved during the year as reflected in the increase in net assets above. Cash and cash equivalents increased \$14,850,000 due to increases in intergovernmental revenue, increases in user fees, and acquisition of infrastructure. Liabilities remained consistent, increasing slightly. Additionally the unrestricted net assets of both the governmental and business-type activities amount to \$12,643,000 and \$8,022,000 respectively. This provides a useful measure of the Town's net assets available for spending at the end of the fiscal year.

There are restrictions in net assets of governmental assets of \$22,965,000 business type activities of \$1,014,000. The restrictions represent legal or contractual obligations on how the assets may be expended. Within the governmental activities category are taxes and other collections limited to specific transportation construction projects and the repayment of debt. Within the business type activities are bond proceeds, and debt service reserves.

Governmental Activities

Addition of Infrastructure: The largest change was the inclusion of general government capital assets and infrastructure (land, road and bridge improvements, streets, etc.). New additions to General Government infrastructure was Capital Improvement Land, Easements and Right of Ways-\$2,758,086, Infrastructure Improvements of \$9,462,401 that includes streets, sidewalks, curbs, gutter improvements, streetlights, storm drains and manholes, town hall improvements of HVAC systems, a card access system and parks improvements.

Infrastructure and other improvements total approximately \$65.7 million with street related components accounting for \$48.4 million of that entire total. The non-land portion of improvements, are now depreciated and the depreciated value at year-end is \$24.9 million. Long term debt totaled \$6.8 million. This includes the Community Facilities Districts debt service on General Obligation and Assessment Bonds.

Business –type Activities

Current cash and other assets total \$9.2 million. Infrastructure and other improvements total approximately \$12.5 million. The non-land portion of improvements, are depreciated and the net value is \$11.5 million. Long term debt totaling \$5.8 million reflects monies borrowed from the Water Infrastructure Financing Authority for the new sewer plant which was estimated at \$7.5 million.

The Water Fund added \$127,937 in capital purchases. This included Project U34 Well #3 Replacement-\$9,258, copy machine -\$9,322, diesel generator \$36,558, a work vehicle -\$67,562 and water meter - \$5,237.

The Florence Sewer Fund continued its Sewer Plant improvement project, expending \$317,820, for construction of the Sewer Plant on Plant Road, Project U-06 Sewer Main Extension-\$19,047 and a work vehicle-\$23,076.

The Sanitation Fund had no capital assets added this year.

Statement of Activities for the Year Ended June 30, 2008:

A summary of the statement of activities follows:

Changes in Net Assets
(in Thousands)

	Governmental Activities		Business-type Activities		Total Government	
	2008	2007	2008	2007	2008	2007
Program revenues						
Charges for services	\$ 3,274	\$ 3,483	\$ 5,061	\$ 4,199	\$ 8,335	\$ 7,682
Operating grants	4,078	581	-	-	4,078	581
Capital grants and contributions	8,545	498	112	-	8,657	498
General revenues						
Taxes	7,081	4,356	-	-	7,081	4,356
Intergovernmental	7,310	9,480	-	-	7,310	9,480
Donation of capital assets	-	7,712	-	132	0	7,844
Miscellaneous	237	1,590	816	475	1,053	2,065
Total revenues	<u>\$ 30,525</u>	<u>\$ 27,700</u>	<u>\$ 5,989</u>	<u>\$ 4,806</u>	<u>\$ 36,514</u>	<u>\$ 32,506</u>
Expenses						
General government	6,637	4,451	-	-	6,637	4,451
Public safety	5,277	4,116	-	-	5,277	4,116
Highways and streets	3,252	2,314	-	-	3,252	2,314
Public works	39	82	-	-	39	82
Culture and recreation	1,568	1,564	-	-	1,568	1,564
Community development	665	510	-	-	665	510
Interest on long-term debt	409	513	-	-	409	513
Water	-	-	1,686	1,376	1,686	1,376
Sewer	-	-	1,744	1,491	1,744	1,491
Sanitation	-	-	685	577	685	577
Non-Major Enterprise	-	-	61	247	61	247
Total expenses	<u>\$ 17,847</u>	<u>\$ 13,550</u>	<u>\$ 4,176</u>	<u>\$ 3,691</u>	<u>\$ 22,023</u>	<u>\$ 17,241</u>
Excess before transfers	12,678	14,150	1,813	1,115	14,491	15,265
Transfers in (out)	327	349	(327)	(349)	-	-
Change in net assets	13,005	14,499	1,486	766	14,491	15,265
Beginning net assets	\$ 73,083	\$ 58,584	\$ 13,864	\$ 13,098	\$ 86,947	\$ 71,682
Ending net assets	<u>\$ 86,088</u>	<u>\$ 73,083</u>	<u>\$ 15,350</u>	<u>\$ 13,864</u>	<u>\$ 101,438</u>	<u>\$ 86,947</u>

Government Activities

The cost of all governmental activities this year was \$17.8 million. \$3.3 million of this cost was paid for by those who directly benefited from or contributed to the programs. \$4.1 million was subsidized by grants received from other governmental organizations, and \$7.1 million was financed through general Town taxes. Other governmental revenues, including inter-governmental aid and interest amounted to \$6.2 million. Donations of capital assets were \$8.5 million.

The Town's governmental functions include the following: general government, community development, culture and recreation, public safety and public works.

Governmental program expenses increased from the prior year. Net costs of services decreased because of increased user fees.

Business-type Activities

The cost of providing all business-type activities this year was \$4.2 million. All of this cost was paid by users.

The Town's business-type programs include the following: water, sewer and sanitation.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008 the Town had invested \$91 million in capital assets as reflected in the following table. Assets increased from the prior year in the amount of \$13.2 million. Of the total additions reflected below, \$13.2 million represents current year infrastructure additions. The majority of the increase in capital additions is due to the infrastructure assets acquired through annexation in the streets in the Governmental Activities. Accumulated depreciation reflects the allowance for aging of assets and the result of assets less accumulated depreciation equals the new value of fixed assets in total.

The following table reconciles the changes in capital assets.

	2006	Additions	Dispositions	2007
Total Town Assets	\$ 66,896,571	\$ 11,423,301	\$ (266,885)	\$ 78,052,987
Depreciation	(17,256,337)	(1,888,575)	220,359	(18,924,553)
	<u>\$ 49,640,234</u>	<u>\$ 9,534,726</u>	<u>\$ (46,526)</u>	<u>\$ 59,128,434</u>

	2007	Additions	Dispositions	2008
Total Town Assets	\$ 78,052,987	\$ 13,181,169	\$ (161,356)	\$ 91,072,800
Depreciation	(18,924,553)	(1,986,564)	138,901	(20,772,216)
	<u>\$ 59,128,434</u>	<u>\$ 11,194,605</u>	<u>\$ (22,455)</u>	<u>\$ 70,300,584</u>

Additional information of the Town of Florence capital assets can be found in the notes to the financial statements.

Debt Administration

As of year-end, the Town had \$13.5 million in debt outstanding compared to \$13 million last year. This is over last year due to WIFA funds being transferred to the Town for the Sewer Construction Project.

Debt Schedule

Financing Agency	Purpose	Loan	Rate	Maturity	Loan Amount	Retired	Balance
Julie Giles	Land Purchase	01/02/02	6.00%	07/01/21	\$800,000	\$154,470	\$645,530
National Bank of Arizona	Streetlight Purchase	03/01/03	3.00%	03/01/10	\$219,000	\$162,617	\$56,383
Bank of New York Trust	Purchase Asset of Utility Co.	01/94	8.45%	01/2019	\$1,525,000	\$830,000	\$695,000
U.S. Bank	Town Construction	1/97	5.40%	07/2009	\$2,495,000	\$2,010,000	\$485,000
Historical Preservation	Silver King Purchase	1/7	0.00%	01/2009	\$75,000	\$50,000	\$25,000
Water Infrastructure Authority of Arizona	Sewer Expansion	1/3	3.34%	07/2022	\$7,500,000	\$1,386,914	\$6,203,819
Wells Fargo Bank	Infrastructure-CFD #1	6/6	4.30%	07/01/30	\$2,464,000	\$76,000	\$2,447,000
Wells Fargo Bank	Infrastructure-CFD #2	6/6	4.30%	07/01/30	\$2,555,000	\$94,000	\$2,520,000
Stone & Youngberg, LLC	Infrastructure-CFD #1	11/6	5.40%	07/01/31	\$194,000	\$7,000	\$187,000
Stone & Youngberg, LLC	Infrastructure-CFD #2	11/1	5.40%	07/01/31	\$251,000	\$9,000	\$242,000
Total Debt					\$18,078,000	\$4,780,002	\$13,506,732

Additional information on the Town of Florence long-term debt can be found in the notes to the financial statements.

The Arizona State Constitution and Statutes limit the amount of general obligation debt that a municipality may issue by providing two tests. Under the first test, general obligation debt for a specific purpose such as supplying water or sewer services and recreational playground facilities may not exceed 20% of the Town's secondary assessed valuation. Under the second test, a Town may not insure general obligation debt for general municipal purposes in an amount that exceeds 6% of the Town's secondary assessed valuation.

Economic Factors

Governmental Funds

The Town relies heavily on state shared revenues. During the year 43% of the general fund revenues were derived from state shared revenues and 50% of the Highway User Fund revenues. Because of the correctional facilities located within the Town limits, the apportionment of state shared revenues has assisted the Town in providing increased demand for services in the municipal limits. The private construction has provided additional transaction privilege tax revenues. These are one time revenues. We may need to use a portion of this revenue to sustain the operational costs of general government for the next two years. The balance will be used to fund capital projects. The retail picture will depend upon future development of housing, commercial and industrial business within the community.

The following business developments have provided additional resources for the Town:

- Sonic Restaurant
- Chen's Restaurant
- McDonalds-Anthem
- UPS Store-Anthem
- The Sunrise Holiday Inn
- Western Feed and Supply
- Radio Shack-Anthem
- Wells Fargo Bank
- Help You Sell Reality
- Allstate Insurance
- Global Nail Spa
- Merrill Ranch Dental Care

Business-type Funds

The rates for the Water, Sewer Funds in Florence were increased July 2007. This was to bring the revenues needed for support of operations, maintenance and debt service.

Development Impact Fees were re-evaluated and new fees became effective on May 18, 2008. The evaluation of fees was based upon the rate study inflation factor.

Next Year's Budget and Rates

The 2008-2009 fiscal year operating budget decreased \$9 million over last year. Reduction was due to a planned acquisition failing to materialize. The operating budget was prepared with a decrease in property tax rate from \$.9953 per \$100 Net

Assessed Valuation to \$.8179 per \$100 Net Assessed Valuation. This is used to supplement the General Fund Revenues.

The 2008-2009 Capital Budgets for next year is limited to the following projects:

- General Fund for \$1,011,975 includes copiers, vehicles, furniture, equipment and improvements for various departments.
- Capital Project Fund \$5,833,543 for Town Construction projects.
- Highway User Fund for \$4,655,000 vehicles and equipment, and street and road improvements.
- Water Fund for \$2,305,000 for water meters, equipment, valves, hydrants, water line replacements and extensions, bore, and well replacement.
- Sewer Fund for \$1,269,000 for manhole replacements, main interceptor, sewer main extension and replacement, office improvements, one vehicle and sewer plant expansion, improvements and closure costs.
- North Florence Sewer Fund for \$100,000 for a bore and lift station.
- Sanitation Fund for \$2,060,000 for garbage truck replacement, land acquisition and transfer station.
- Enterprise Impact Fee \$526,000 in various growth related projects
- Other Impact Fees \$4,238,259 in various growth related projects
- Various grants and special revenue for community improvements in the amount of \$4,471,698.

Town has set aside \$5,833,543 for capital projects for town facilities. The source of these funds comes from the General Fund, Construction Tax Fund and the 2% Food Tax Fund.

We have established three Streetlight Improvement Districts in the Pulte Development area. This will provide a revenue stream through ad-valorem property tax to pay for expenses of the streetlights that directly provide the benefits to the users of the SLID.

We have established three Community Facilities Districts. These Districts are political sub-division of the Town and have the ability to levy assessments and/or ad-valorem property tax to the owners of the properties within the districts. Funds are used to repay debt associated with the sale of bonds that pay for the infrastructure costs which provides a direct benefit to the users of the individual districts.

Monitoring of existing programs and services will be continued for Budget Year 2008-2009. Cost-to-benefit ratios have been established through the Town's financial policy, and services that do not meet the threshold will be recommended for termination. Personnel costs and benefits continue to be monitored.

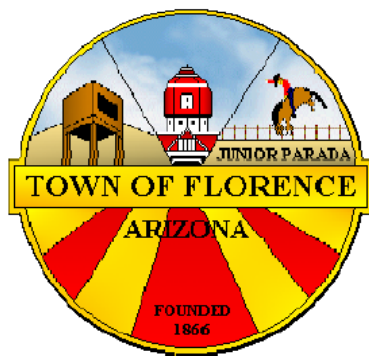
The Capital Improvement Plan has been updated by a CIP adopted during the budget process. This guideline will provide the town with a planning document to project capital purchases for the next seven years. The CIP will be updated annually.

Financial Contact

The Town's financial statements are designed to present users (citizens, taxpayers, investors, customers and creditors) with general overview of the Town's finances and to demonstrate the Town's accountability. If you have questions about the report or need additional financial information, please contact the Town's Finance Director at 775 North Main Street, Florence, Arizona 85232.

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS



TOWN OF FLORENCE, ARIZONA
STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government		
	Governmental	Business-type	Total
ASSETS	Activities	Activities	
Cash and cash equivalents	\$ 28,700,432	\$ 8,978,274	\$ 37,678,706
Receivables (net of allowance for uncollectibles)	1,747,512	404,572	2,152,084
Special assessment receivable	5,337,232	-	5,337,232
Due from other governments	52,114	-	52,114
Internal balances	150,000	(150,000)	-
Deferred charges	370,712	-	370,712
Prepays	416,550	-	416,550
Restricted cash equivalents	1,373,069	-	1,373,069
Capital assets			
Land and construction in progress	35,610,855	7,400,717	43,011,572
Other capital assets (net of accumulated depreciation)	22,172,300	5,116,712	27,289,012
Total assets	<u>95,930,776</u>	<u>21,750,275</u>	<u>117,681,051</u>
LIABILITIES			
Accounts payable and other current liabilities	848,969	2,675	851,644
Customer deposits	112,072	54,567	166,639
Accrued wages and benefits	608,389	-	608,389
Accrued interest payable	219,870	98,179	318,049
Retainages	463,669	10,748	474,417
Unearned revenue	275	-	275
Current portion of			
Compensated absences	286,297	30,998	317,295
Capital leases	33,408	-	33,408
Certificates of Participation	235,000	-	235,000
Notes payable	56,016	329,596	385,612
Bonds payable	167,000	-	167,000
Long-term portion of			
Capital leases	22,974	-	22,974
Certificates of Participation	250,000	-	250,000
Notes payable	614,514	5,874,223	6,488,737
Bonds payable	5,924,000	-	5,924,000
Total liabilities	<u>9,842,453</u>	<u>6,400,986</u>	<u>16,243,439</u>
NET ASSETS			
Invested in capital assets, net of related debt	50,480,243	6,313,610	56,793,853
Restricted for			
Highways and streets	6,736,872	-	6,736,872
Grant purposes	379,407	-	379,407
Debt service	6,678,853	546,778	7,225,631
Special revenues	4,238,037	-	4,238,037
Capital projects	4,932,316	467,354	5,399,670
Unrestricted	12,642,595	8,021,547	20,664,142
Total net assets	<u>\$ 86,088,323</u>	<u>\$ 15,349,289</u>	<u>\$ 101,437,612</u>

See accompanying notes.

TOWN OF FLORENCE, ARIZONA
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 6,636,693	\$ 1,254,301	\$ 37,323	\$ -
Public safety	5,276,621	180,201	153,487	35,650
Highways and streets	3,252,395	-	3,866,155	8,188,919
Public works	39,093	-	-	251,273
Culture and recreation	1,567,834	7,265	450	69,650
Community development	664,920	1,831,769	20,280	-
Interest on long-term debt	409,166	-	-	-
Total governmental activities	<u>17,846,722</u>	<u>3,273,536</u>	<u>4,077,695</u>	<u>8,545,492</u>
Business-type activities				
Water	1,685,957	2,216,245	-	13,723
Sewer	1,744,521	2,089,828	-	32,896
Sanitation	685,265	754,996	-	65,576
Nonmajor enterprise	61,584	-	-	-
Total business-type activities	<u>4,177,327</u>	<u>5,061,069</u>	<u>-</u>	<u>112,195</u>
Total primary government	<u>\$ 22,024,049</u>	<u>\$ 8,334,605</u>	<u>\$ 4,077,695</u>	<u>\$ 8,657,687</u>
General revenues				
Property taxes				
Sales and use taxes				
Franchise taxes				
Shared revenues				
State sales taxes				
Urban revenue sharing				
Auto-in-lieu				
Investment earnings				
Miscellaneous				
Transfers in (out)				
Total general revenues and transfers				
Change in net assets				
Net assets-beginning				
Net assets-ending				

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (5,345,069)	\$ -	\$ (5,345,069)
(4,907,283)	-	(4,907,283)
8,802,679	-	8,802,679
212,180	-	212,180
(1,490,469)	-	(1,490,469)
1,187,129	-	1,187,129
(409,166)	-	(409,166)
<u>(1,949,999)</u>	<u>-</u>	<u>(1,949,999)</u>
-	544,011	544,011
-	378,203	378,203
-	135,307	135,307
-	(61,584)	(61,584)
<u>-</u>	<u>995,937</u>	<u>995,937</u>
<u>(1,949,999)</u>	<u>995,937</u>	<u>(954,062)</u>
985,758	-	985,758
5,737,272	-	5,737,272
358,071	-	358,071
1,894,738	-	1,894,738
2,889,187	-	2,889,187
1,390,620	-	1,390,620
1,135,669	315,277	1,450,946
237,361	500,657	738,018
326,795	(326,795)	-
<u>14,955,471</u>	<u>489,139</u>	<u>15,444,610</u>
13,005,472	1,485,076	14,490,548
73,082,851	13,864,213	86,947,064
<u>\$ 86,088,323</u>	<u>\$ 15,349,289</u>	<u>\$ 101,437,612</u>

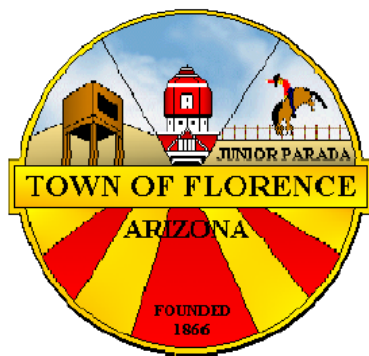
TOWN OF FLORENCE, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	General	Highway User	Impact Fees	Community Facilities Districts- Debt Service
ASSETS				
Cash and cash equivalents	\$ 9,049,746	\$ 6,852,439	\$ 4,191,867	\$ 510,525
Receivables (net of allowance for uncollectibles)	1,334,603	328,225	14,104	4,754,446
Due from other governments	-	-	-	-
Due from other funds	-	-	-	-
Prepays	300,872	-	-	-
Restricted assets				
Cash and cash equivalents	-	-	-	651,267
Total assets	<u>\$ 10,685,221</u>	<u>\$ 7,180,664</u>	<u>\$ 4,205,971</u>	<u>\$ 5,916,238</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other current liabilities	\$ 1,172,685	\$ -	\$ -	\$ -
Customer deposits	114,639	-	-	-
Accrued wages and benefits	281,970	-	-	-
Retainages	-	398,229	-	-
Deferred revenue	-	-	-	4,752,753
Total liabilities	<u>1,569,294</u>	<u>398,229</u>	<u>-</u>	<u>4,752,753</u>
Fund balances:				
Reserved for				
Debt service	-	-	-	-
Operations	1,561,349	594,180	-	-
Unreserved, reported in				
General fund	7,554,578	-	-	-
Special revenue funds	-	6,188,255	4,205,971	1,163,485
Capital projects funds	-	-	-	-
Total fund balances	<u>9,115,927</u>	<u>6,782,435</u>	<u>4,205,971</u>	<u>1,163,485</u>
Total liabilities and fund balance	<u>\$ 10,685,221</u>	<u>\$ 7,180,664</u>	<u>\$ 4,205,971</u>	<u>\$ 5,916,238</u>

Capital Improvements	Community Facilities Districts- Capital Improvements	Other Governmental Funds	Total Governmental Funds
\$ 3,520,419	\$ 4,513	\$ 4,570,923	\$ 28,700,432
11,581	30	641,755	7,084,744
-	-	52,114	52,114
150,000	-	-	150,000
-	-	115,678	416,550
-	721,802	-	1,373,069
<u>\$ 3,682,000</u>	<u>\$ 726,345</u>	<u>\$ 5,380,470</u>	<u>\$ 37,776,909</u>

\$ -	\$ -	\$ 150	\$ 1,172,835
-	-	-	114,639
-	-	-	281,970
65,440	-	-	463,669
-	-	635,065	5,387,818
<u>65,440</u>	<u>-</u>	<u>635,215</u>	<u>7,420,931</u>

-	-	178,136	178,136
-	-	-	2,155,529
-	-	-	7,554,578
-	-	4,567,119	16,124,830
3,616,560	726,345	-	4,342,905
<u>3,616,560</u>	<u>726,345</u>	<u>4,745,255</u>	<u>30,355,978</u>
<u>\$ 3,682,000</u>	<u>\$ 726,345</u>	<u>\$ 5,380,470</u>	<u>\$ 37,776,909</u>



TOWN OF FLORENCE, ARIZONA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
June 30, 2008

Fund balance - total governmental funds balance sheet \$ 30,355,978

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the
governmental funds.

Governmental capital assets	\$ 71,719,279	
Less accumulated depreciation	<u>(13,936,124)</u>	57,783,155

Long-term liabilities, including bonds payable and their related
costs, are not due and payable in the current period and therefore
are not reported in the funds.

Compensated absences	(286,297)	
Capital leases	(56,382)	
Certificate of participation	(485,000)	
Notes payable	(670,530)	
Bond issuance costs	370,712	
Bonds payable	<u>(6,091,000)</u>	(7,218,497)

Deferred revenue is shown on the governmental funds, but is not
deferred on the statement of net assets.

Special assessments	5,337,232	
Grants	<u>50,325</u>	5,387,557

Interest payable on long-term debt is not reported in the
governmental funds.

(219,870)

Net assets of governmental activities - statement of net assets	<u><u>\$ 86,088,323</u></u>
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TOWN OF FLORENCE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2008

REVENUES	General	Highway User	Impact Fees
Taxes	\$ 5,852,556	\$ 3,755,287	\$ -
Franchise fees	358,071	-	-
Licenses and permits	612,530	-	-
Intergovernmental revenues	6,173,409	97,754	-
Charges for services	952,206	-	1,566,224
Fines	87,361	-	-
Special assessments	-	-	-
Investment earnings	268,599	323,390	124,573
Contributions and donations	575	-	-
Miscellaneous	109,504	108,159	-
Total revenues	<u>14,414,811</u>	<u>4,284,590</u>	<u>1,690,797</u>
EXPENDITURES			
Current			
General government	2,859,448	-	-
Public safety	4,911,512	-	-
Highways and streets	-	2,226,294	-
Culture and recreation	1,514,276	-	-
Community development	669,418	-	68,427
Capital outlay	-	3,582,038	-
Debt service			
Principal	254,260	29,757	-
Interest and fiscal charges	74,576	2,074	-
Total expenditures	<u>10,283,490</u>	<u>5,840,163</u>	<u>68,427</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,131,321</u>	<u>(1,555,573)</u>	<u>1,622,370</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	729,992	-	-
Transfers out	(124,740)	(287,609)	-
Sale of capital assets	1,393	-	-
Total other financing sources and uses	<u>606,645</u>	<u>(287,609)</u>	<u>-</u>
Net change in fund balances	4,737,966	(1,843,182)	1,622,370
Fund balances - beginning of year	4,377,961	8,625,617	2,583,601
Fund balances - end of year	<u>\$ 9,115,927</u>	<u>\$ 6,782,435</u>	<u>\$ 4,205,971</u>

Community Facilities Districts- Debt Service	Capital Improvements	Community Facilities Districts- Capital Improvements	Other Governmental Funds	Total Governmental Funds
\$ 473,187	\$ -	\$ -	\$ 398,423	\$ 10,479,453
-	-	-	-	358,071
-	-	-	-	612,530
-	-	-	168,693	6,439,856
-	-	-	18,562	2,536,992
-	-	-	4,943	92,304
479,874	-	-	112,498	592,372
19,844	160,748	71,735	166,780	1,135,669
-	-	-	5,061	5,636
-	1,197	-	15,021	233,881
<u>972,905</u>	<u>161,945</u>	<u>71,735</u>	<u>889,981</u>	<u>22,486,764</u>
47,190	382,565	10,000	64,262	3,363,465
-	-	-	135,785	5,047,297
-	-	-	19,065	2,245,359
-	13,550	-	-	1,527,826
-	-	-	54,834	792,679
-	773,997	2,751,512	68,034	7,175,581
68,000	-	-	40,000	392,017
165,000	-	-	60,418	302,068
<u>280,190</u>	<u>1,170,112</u>	<u>2,761,512</u>	<u>442,398</u>	<u>20,846,292</u>
<u>692,715</u>	<u>(1,008,167)</u>	<u>(2,689,777)</u>	<u>447,583</u>	<u>1,640,472</u>
1,805	-	8,650	106,401	846,848
(8,650)	(45,382)	(1,805)	(51,867)	(520,053)
-	-	-	-	1,393
<u>(6,845)</u>	<u>(45,382)</u>	<u>6,845</u>	<u>54,534</u>	<u>328,188</u>
685,870	(1,053,549)	(2,682,932)	502,117	1,968,660
477,615	4,670,109	3,409,277	4,243,138	28,387,318
<u>\$ 1,163,485</u>	<u>\$ 3,616,560</u>	<u>\$ 726,345</u>	<u>\$ 4,745,255</u>	<u>\$ 30,355,978</u>

TOWN OF FLORENCE, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2008

Net change in fund balances - total governmental funds \$ 1,968,660

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities the cost of those assets is allocated over
their estimated useful lives and reported as depreciation expense.
Also, assets contributed to the Town are not reported in the fund
statements and are reported in the statement of activities.

Contributions	\$ 8,294,219	
Sale of capital assets	(8,873)	
Expenditures for capitalized assets	4,399,070	
Less current year depreciation	<u>(1,590,441)</u>	11,093,975

Revenues received in the current year that were accrued in the
statement of activities in prior years

Special assessments	(305,909)
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Revenues in the statement of activities that do not provide
current financial resources are not reported as revenues
in the funds.

Grants	50,325
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Interest expense in the statement of activities differs from the amount
reported in governmental funds because accrued interest was
calculated for outstanding debt for the statement of activities, but is
expensed when due for the governmental fund statements.

(117,191)

Repayment of long-term debt are expenditures in the governmental
funds, but the repayment reduces long-term liabilities in the statement
of net assets.

Issuance of bond debt		
Bond issuance costs	(17,653)	
Capital lease principal retirement	32,503	
Certificate of participation principal retirement	225,000	
Note payable principal retirement	54,260	
Bond principal retirement	<u>108,000</u>	402,110

Compensated absences expenses reported in the statement of activities
do not require the use of current financial resources and therefore are
not reported as expenditures in governmental funds.

<u>(86,498)</u>

Change in net assets of governmental activities	<u>\$ 13,005,472</u>
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TOWN OF FLORENCE, ARIZONA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL

For The Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes	\$ 3,317,839	\$ 3,317,839	\$ 5,852,556	\$ 2,534,717
Franchise fees	281,500	281,500	358,071	76,571
Licenses and permits	652,000	652,000	612,530	(39,470)
Intergovernmental revenues	6,386,229	6,386,229	6,173,409	(212,820)
Charges for services	1,617,500	1,617,500	952,206	(665,294)
Fines	67,200	67,200	87,361	20,161
Investment earnings	60,000	60,000	268,599	208,599
Contributions and donations	-	-	575	575
Miscellaneous	46,100	46,100	109,504	63,404
Total revenues	<u>12,428,368</u>	<u>12,428,368</u>	<u>14,414,811</u>	<u>1,986,443</u>
EXPENDITURES				
Current				
General government	4,721,781	4,721,781	2,859,448	1,862,333
Public safety	5,787,658	5,787,658	4,911,512	876,146
Culture and recreation	1,740,552	1,740,552	1,514,276	226,276
Community development	1,050,300	1,050,300	669,418	380,882
Debt service				
Principal	254,260	254,260	254,260	-
Interest and fiscal charges	74,640	74,640	74,576	64
Total expenditures	<u>13,629,191</u>	<u>13,629,191</u>	<u>10,283,490</u>	<u>3,345,701</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,200,823)</u>	<u>(1,200,823)</u>	<u>4,131,321</u>	<u>5,332,144</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,546,042	1,546,042	729,992	(816,050)
Transfers out	(396,762)	(396,762)	(124,740)	272,022
Sale of capital assets	500	500	1,393	893
Total other financing sources and uses	<u>1,149,780</u>	<u>1,149,780</u>	<u>606,645</u>	<u>(543,135)</u>
Net change in fund balance	<u>(51,043)</u>	<u>(51,043)</u>	<u>4,737,966</u>	<u>4,789,009</u>
Fund balance - beginning of year	51,043	51,043	4,377,961	4,326,918
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,115,927</u>	<u>\$ 9,115,927</u>

TOWN OF FLORENCE, ARIZONA
HIGHWAY USER FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For The Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes	\$ 3,825,051	\$ 3,825,051	\$ 3,755,287	\$ (69,764)
Intergovernmental revenues	97,754	97,754	97,754	-
Investment earnings	180,000	180,000	323,390	143,390
Miscellaneous	28,000	28,000	108,159	80,159
Total revenues	<u>4,130,805</u>	<u>4,130,805</u>	<u>4,284,590</u>	<u>153,785</u>
EXPENDITURES				
Current				
Highways and streets	2,935,630	2,935,630	2,226,294	709,336
Capital outlay	4,521,955	4,521,955	3,582,038	939,917
Debt service				
Principal	32,329	32,329	29,757	2,572
Interest and fiscal charges	2,485	2,485	2,074	411
Total expenditures	<u>7,492,399</u>	<u>7,492,399</u>	<u>5,840,163</u>	<u>1,652,236</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,361,594)</u>	<u>(3,361,594)</u>	<u>(1,555,573)</u>	<u>1,806,021</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	10,500	10,500	-	(10,500)
Transfers out	<u>(545,294)</u>	<u>(545,294)</u>	<u>(287,609)</u>	<u>257,685</u>
Total other financing sources and uses	<u>(534,794)</u>	<u>(534,794)</u>	<u>(287,609)</u>	<u>247,185</u>
Net change in fund balance	<u>(3,896,388)</u>	<u>(3,896,388)</u>	<u>(1,843,182)</u>	<u>2,053,206</u>
Fund balance - beginning of year	3,896,388	3,896,388	8,625,617	4,729,229
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,782,435</u>	<u>\$ 6,782,435</u>

TOWN OF FLORENCE, ARIZONA

IMPACT FEES

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL

For The Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 2,555,074	\$ 2,555,074	\$ 1,566,224	\$ (988,850)
Investment earnings	118,000	118,000	124,573	6,573
Total revenues	<u>2,673,074</u>	<u>2,673,074</u>	<u>1,690,797</u>	<u>(982,277)</u>
EXPENDITURES				
Current				
Community development	2,050,000	2,050,000	68,427	1,981,573
Capital outlay	2,395,282	2,395,282	-	2,395,282
Total expenditures	<u>4,445,282</u>	<u>4,445,282</u>	<u>68,427</u>	<u>4,376,855</u>
Excess (deficiency) of revenues over (under) expenditures	(1,772,208)	(1,772,208)	1,622,370	3,394,578
Fund balance - beginning of year	<u>1,772,208</u>	<u>1,772,208</u>	<u>2,583,601</u>	<u>811,393</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,205,971</u>	<u>\$ 4,205,971</u>

TOWN OF FLORENCE, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

	Business-type Activities-Enterprise Funds		
ASSETS			
Current assets	Water	Sewer	Sanitation
Cash and cash equivalents	\$ 4,144,391	\$ 4,467,878	\$ 366,005
Receivables, net of uncollectibles	193,744	141,879	68,949
Total current assets	4,338,135	4,609,757	434,954
Noncurrent assets			
Capital assets:			
Land	212,097	273,973	-
Buildings and improvements	4,087,692	5,997,434	-
Machinery and equipment	656,946	260,530	950,203
Construction in progress	-	6,914,647	-
Less accumulated depreciation	(2,968,099)	(3,288,363)	(579,631)
Total capital assets, net	1,988,636	10,158,221	370,572
Total noncurrent assets	1,988,636	10,158,221	370,572
Total assets	6,326,771	14,767,978	805,526
LIABILITIES			
Current liabilities			
Accounts payable	2,675	-	-
Customer deposits	54,567	-	-
Accrued interest payable	-	98,179	-
Due to other funds	-	-	150,000
Retainages payable	-	10,748	-
Compensated absences	12,090	16,508	2,400
Notes payable	-	329,596	-
Total current liabilities	69,332	455,031	152,400
Noncurrent liabilities			
Notes payable	-	5,874,223	-
Total noncurrent liabilities	-	5,874,223	-
Total liabilities	69,332	6,329,254	152,400
NET ASSETS			
Invested in capital assets, net of related debt	1,988,636	3,954,402	370,572
Restricted for			
Debt service	-	546,778	-
Capital projects	102,987	305,705	58,662
Unrestricted	4,165,816	3,631,839	223,892
Total net assets	\$ 6,257,439	\$ 8,438,724	\$ 653,126

Business-type Activities		Enterprise Funds	
Non-Major		Total	
Funds			
\$	-	\$	8,978,274
	-		404,572
	-		9,382,846
	-		
	-		486,070
	-		10,085,126
	-		1,867,679
	-		6,914,647
	-		(6,836,093)
	-		12,517,429
	-		12,517,429
	-		21,900,275
	-		
	-		2,675
	-		54,567
	-		98,179
	-		150,000
	-		10,748
	-		30,998
	-		329,596
	-		676,763
	-		
	-		5,874,223
	-		5,874,223
	-		6,550,986
	-		
	-		6,313,610
	-		
	-		546,778
	-		467,354
	-		8,021,547
\$	-	\$	15,349,289

TOWN OF FLORENCE, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For The Year Ended June 30, 2008

	Business-type Activities-Enterprise Funds		
	Water	Sewer	Sanitation
Operating revenues			
Development fees	\$ 13,723	\$ 32,896	\$ 65,576
Water sales	2,042,549	-	-
Water connection fees	19,426	-	-
Service establishment fees	14,530	-	-
Sewer service fees	-	1,590,813	-
Sewer connection fees	-	11,400	-
DOC usage fees	-	487,615	-
Water standpipe	2,693	-	-
Hydro-sprinkler fees	24,257	-	-
Central Arizona Project	102,400	-	-
Refuse collection fees	-	-	754,996
Effluent charges	10,390	-	-
Miscellaneous	34,077	183,239	64,245
Total operating revenue	<u>2,264,045</u>	<u>2,305,963</u>	<u>884,817</u>
Operating expenses			
Personal services	342,633	381,921	217,256
Supplies	101,345	156,367	124,008
Contractual services and maintenance	1,072,795	761,103	275,474
Other charges	-	79,112	-
Depreciation	166,951	160,828	68,344
Total operating expenses	<u>1,683,724</u>	<u>1,539,331</u>	<u>685,082</u>
Operating income (loss)	<u>580,321</u>	<u>766,632</u>	<u>199,735</u>
Nonoperating revenues (expense)			
Interest income	150,845	150,110	14,322
Interest expense	-	(195,170)	-
Loss on sale of assets	(2,233)	(10,020)	(183)
Total nonoperating revenues (expense)	<u>148,612</u>	<u>(55,080)</u>	<u>14,139</u>
Income (loss) before transfers	<u>728,933</u>	<u>711,552</u>	<u>213,874</u>
Transfers in	34,356	11,538	-
Transfers out	<u>(163,147)</u>	<u>(228,448)</u>	<u>(70,908)</u>
Change in net assets	600,142	494,642	142,966
Total net assets-beginning of year	<u>5,657,297</u>	<u>7,944,082</u>	<u>510,160</u>
Total net assets-end of year	<u>\$ 6,257,439</u>	<u>\$ 8,438,724</u>	<u>\$ 653,126</u>

See accompanying notes.

Business-type Activities	
Enterprise Funds	
Non-Major Funds	Total
\$ -	\$ 112,195
-	2,042,549
-	19,426
-	14,530
-	1,590,813
-	11,400
-	487,615
-	2,693
-	24,257
-	102,400
-	754,996
-	10,390
219,096	500,657
<u>219,096</u>	<u>5,673,921</u>
-	941,810
-	381,720
-	2,109,372
61,584	140,696
-	396,123
<u>61,584</u>	<u>3,969,721</u>
<u>157,512</u>	<u>1,704,200</u>
-	315,277
-	(195,170)
-	(12,436)
<u>-</u>	<u>107,671</u>
157,512	1,811,871
173,076	218,970
(83,262)	(545,765)
<u>247,326</u>	<u>1,485,076</u>
(247,326)	13,864,213
<u>\$ -</u>	<u>\$ 15,349,289</u>

TOWN OF FLORENCE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended June 30, 2008

	Business-type Activities-Enterprise Funds		
	Water	Sewer	Sanitation
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,277,864	\$ 2,404,209	\$ 879,609
Payments to suppliers	(1,170,308)	(996,582)	(449,482)
Payments to employees	(338,794)	(374,193)	(218,208)
Net cash provided (used) by operating activities	768,762	1,033,434	211,919
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(163,147)	(228,448)	(70,908)
Transfers from other funds	34,356	11,538	-
Net cash provided (used) by noncapital financing activities	(128,791)	(216,910)	(70,908)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from sale of capital assets	1,149	-	-
Acquisition and construction of capital assets	(127,937)	(642,199)	-
Deferred developer revenue	-	-	(14,535)
Proceeds from capital debt	-	1,229,277	-
Principal paid on capital debt	-	(318,946)	-
Interest paid on capital debt	-	(96,991)	-
Net cash provided (used) by capital and related financing activities	(126,788)	171,141	(14,535)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	164,880	168,017	16,363
Net cash provided by investing activities	164,880	168,017	16,363
Net increase (decrease) in cash and cash equivalents	678,063	1,155,682	142,839
Cash and cash equivalents at beginning of year	3,466,328	3,312,196	223,166
Cash and cash equivalents at end of year	\$ 4,144,391	\$ 4,467,878	\$ 366,005

See accompanying notes.

Business-type Activities Enterprise Funds	
Non-Major Funds	Total
\$ 219,096	\$ 5,780,778
(308,910)	(2,925,282)
-	(931,195)
(89,814)	1,924,301
(83,262)	(545,765)
173,076	218,970
89,814	(326,795)
-	1,149
-	(770,136)
-	(14,535)
-	1,229,277
-	(318,946)
-	(96,991)
-	29,818
-	349,260
-	349,260
-	1,976,584
-	7,001,690
\$ -	\$ 8,978,274

TOWN OF FLORENCE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
For The Year Ended June 30, 2008

	Business-type Activities-Enterprise Funds		
	Water	Sewer	Sanitation
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 580,321	\$ 766,632	\$ 199,735
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation expense	166,951	160,828	68,344
(Increase) decrease in accounts receivable	16,668	98,246	(5,208)
Increase (decrease) in accounts payable	3,832	-	-
Increase (decrease) in customer deposits	(2,849)	-	-
Increase (decrease) in due to others	-	-	(50,000)
Increase (decrease) in compensated absences	3,839	7,728	(952)
Total adjustments	188,441	266,802	12,184
Net cash provided by operating activities	\$ 768,762	\$ 1,033,434	\$ 211,919

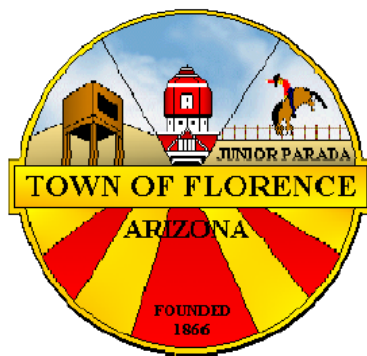
Business-type Activities Enterprise Funds	
Non-Major Funds	Total
<u>\$ 157,512</u>	<u>\$ 1,704,200</u>
-	396,123
-	109,706
-	3,832
-	(2,849)
(247,326)	(297,326)
-	10,615
<u>(247,326)</u>	<u>220,101</u>
<u><u>\$ (89,814)</u></u>	<u><u>\$ 1,924,301</u></u>

TOWN OF FLORENCE, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2008

	<u>Pension Trust</u>
ASSETS	
Cash and cash equivalents	<u>\$ 261,292</u>
Total assets	<u>261,292</u>
LIABILITIES	
Accounts payable	<u>1,797</u>
Total liabilities	<u>1,797</u>
NET ASSETS	
Held in trust for pension benefits and other purposes	<u><u>\$ 259,495</u></u>

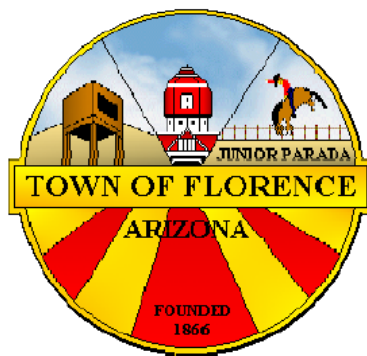
TOWN OF FLORENCE, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For The Year Ended June 30, 2008

	<u>Pension Trust</u>
ADDITIONS	
Contributions	
Employee	\$ 4,224
Total contributions	<u>4,224</u>
Investment earnings	
Interest	<u>10,294</u>
Total investment earnings	<u>10,294</u>
Total additions	<u>14,518</u>
DEDUCTIONS	
Pension withdrawals	<u>7,711</u>
Total deductions	<u>7,711</u>
Change in net assets	6,807
Net assets-beginning of year	<u>252,688</u>
Net assets-end of year	<u><u>\$ 259,495</u></u>



FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS



TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Florence, Arizona (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The Town is a municipal entity governed by an elected Mayor and council. The basic financial statements of the town include the funds of all organizational entities for which the Town Council has oversight responsibility or financial accountability and are consequently determined to be included in the Town's financial reporting entity in accordance with Governmental Accounting Standards Board Statement No. 14, the Financial Reporting Entity. The Town provides basic government services to its citizens including roads, water, sewer, sanitation, parks and recreation facilities, police and fire.

Individual Component Units – Blended

The Merrill Ranch Community Facilities District #1 and Merrill Ranch Community Facilities District #2 were formed by petition to the Town Council on December 19, 2005 and November 21, 2005, respectively. The purpose of the Districts is to acquire or construct public infrastructure in specified areas of the Town. As special purpose districts and separate political subdivisions under the Arizona Constitution, the Districts may levy taxes and issue bonds independently of the Town. Property owned in the designated areas is assessed for the Districts' property taxes, and thus for the costs of operating the Districts. The Town Council serves as the Board of Directors of the Districts. The Town has no liability for the District's debt. For reporting purposes, the transactions of the Districts are included as governmental type funds as if they were part of the Town's operations.

No separate financial statements were prepared for the Districts.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) present financial information about the Town as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the Town. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, state-shared revenues, investment income and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Governmental-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule the effect of internal activity has been eliminated from the government-wide financial statements.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes, sales taxes, franchise taxes, licenses and permits, charges for service, special assessments and investment income associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenues as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Deferred revenues also arise when the Town receives resources before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

Delinquent property taxes have been recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue on the governmental fund financial statements.

The Town reports the following major governmental funds:

General Fund - This fund is the general operating fund of the Town. It accounts for all financial resources of the Town, except those required to be accounted for in other funds.

Highway User Fund – Special Revenue Fund - This fund is used to account for the Town's share of tax revenues that are legally restricted to the maintenance of highways within the Town's boundaries.

Impact Fees Fund - This fund collects fees to help defray the costs of development of infrastructure.

Community Facilities Districts - Debt Service Fund - This fund accounts for the debt portion of the Town's Community Facilities Districts which are component units that provide general infrastructure and capital assets for the property within each District's boundaries.

Capital Improvement Fund - This fund accounts for all the acquisition and construction of major capital facilities other than those financed by proprietary funds.

Community Facilities Districts - Capital Improvements Fund - This fund accounts for all the acquisition and construction portion of the Town's Community Facilities Districts which are component units that provide general infrastructure and capital assets for the property within each District's boundaries.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Town reports the following major proprietary funds:

Water Fund - This fund is used to account for the Town's water related operations.

Sewer Fund - This fund is used to account for the Town's sewer related operations.

Sanitation Fund - This fund is used to account for the activities of the Town's sanitation operations.

The Town reports the following fiduciary fund:

Pension Trust Fund - This Pension Trust Fund is used to account for the Town's Volunteer Firefighter's Pension Fund, a defined contribution plan for which the assets are held by the Town in a trustee capacity. The Town, as well as, the Town's firefighters make contributions to the fund.

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the Town follows GASB guidance as applicable to its proprietary funds, and Financial Accounting Standards Boards Statements and Interpretations, Accounting Principals Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB Pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprises fund are charges to customers for water, wastewater, and sanitation services. Operating expenses for these funds include the cost of sales and services, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, and then unrestricted resources, as they are needed.

TOWN OF FLORENCE, ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Town's non-major funds are as follows:

Special Revenue Funds

Construction Tax

Food Tax

Economic Development

Court Enhancement

Grants

Community Facilities Districts

Debt Service Funds

Debt Service Fund

Proprietary Funds

East Florence Water

East Florence Sewer

Fiduciary funds are reported by fund type.

D. Cash and Cash Equivalents

Cash represents amounts in demand deposits and amounts held in trust by financial institutions. The funds held in trust are available to the Town upon demand. Cash equivalents are defined as short-term (original maturities of three months or less), highly liquid investments that are 1) readily convertible to known amounts of cash and 2) so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

E. Investments

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's Local Government Investment Pool, interest-bearing savings account, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principle and interest by the U.S. government; and bonds of the State of Arizona counties, cities, school districts, and special districts as specified by statute.

The State's investment pool is managed by the State Treasurer's office with no regulatory oversight. The pool is not required to register with the Securities and Exchange Commission under the 1940 Investments Advisors Act. The activity and performance of the pool is reviewed monthly by the State Board of Investment in accordance with A.R.S. §35-311. The Arizona State Treasurer issues a publicly available financial report that includes financial statements and required supplementary information. Copies may be obtained by contacting the Arizona State

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Treasurer, 1700 West Washington, Phoenix, Arizona 85007. The fair value of a participant's position in the pool approximates the value of that participant's pool share.

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of the interfund loans).

All trade and property tax receivables are shown net of allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivables allowance for uncollectibles.

Property taxes are levied by the Town and collected by the Pinal County Treasurer. Property taxes are levied no later than the third Monday in August and are payable in two installments due October 1 of the current year and March 1 of the subsequent year. Taxes become delinquent after the first business day of November and May, respectively. Interest attaches on installments after the delinquent date. Pursuant to A.R.S., a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise.

G. Prepaid Items

Certain payments to vendors reflect the cost applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

H. Capital Assets

Capital assets, which include land, buildings, improvements other than buildings, vehicles, machinery, equipment, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than three years. Such assets are recorded at historical cost or estimated fair market value at the date of donation.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Certain capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements other than buildings	20-70
Vehicles, machinery and equipment	3-10

I. Compensated Absences

The Town's employee vacation and sick leave policies provide for granting vacation and sick leave with pay. Sick leave and vacation benefits vest at the employee's current rate of pay. The current and long-term liabilities for accumulated vacation and sick leave are reported on the government-wide financial statements and in the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignation and retirements. Resources from the General Fund are generally used to liquidate the governmental funds liabilities for compensated absences.

J. Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of the fund balance for amounts that are not available for expenditures or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management's intended use of resources and reflect actual plans approved by the government's senior management. At June 30, 2008, the Town reserved fund balance for several various purposes. There are no reported designations.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund statements are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

M. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 CASH AND INVESTMENTS

At June 30, 2008, the Town had \$1,400 of cash on hand. The carrying amount of the Town's cash in bank totaled \$5,222,614 and the bank balance was \$5,533,317. The Town's deposits at June 30, 2008 were covered by Federal Depository Insurance to the extent of \$200,000. Deposits of \$5,333,317 were collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the depositor-government's name.

Investments

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's Local Government Investment Pool, interest-bearing savings account, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principal and interest by the U.S. government; and bonds of the State of Arizona counties, cities, school districts, and special districts as specified by statute.

The Town invests in the Local Government Investment Pool 5 (LGIP), an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. The LGIP is not registered with the Securities Exchange Commission under the 1940 Investment Advisors Act. The State Board of Investment has oversight responsibilities of the investment pool in accordance with ARS 35-311. The pool's policy is to invest in fixed-rate securities with a final maturity less than 36 months from the settlement date of the purchase and variable-rate securities with final maturity less than 5 years. The dollar weighted average portfolio maturity is less than 240 days. The net asset value per share of the pool at June 30, 2007 was \$1.00.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 CASH AND INVESTMENTS (Continued)

Funds held in the State Treasurer's Local Government Investment Pool represent a proportionate interest in the pool's portfolio; however, the Town's portion is not identified with specific investments and is not subject to custodial credit risk. At June 30, 2008, the Town's funds invested with the State Treasurer totaled \$32,456,092.

The Town's Community Facilities Districts have \$1,373,069 invested with Wells Fargo Brokerage Services. The accounts are invested in a money market fund that invests in U.S. government obligations and repurchase agreements.

Other investments that the Town owns belong to the Town's Volunteer Fire Department. These funds are held by Securian Retirement Services and consist of a money market fund and a variable annuity.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is provided by the following table that shows the distribution of Town's investments by maturity:

Investment Type	Total	Remaining Maturity (In Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Primary Government					
Money Market Funds	\$ 1,373,069	\$ 1,373,069	\$ -	\$ -	\$ -
LGIP	32,456,092	32,456,092			
	<u>33,829,161</u>	<u>33,829,161</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fiduciary Fund					
Money Market Funds	43,884	43,884	-	-	-
Variable Annuity	217,408	-	-	217,408	-
	<u>261,292</u>	<u>43,884</u>	<u>-</u>	<u>217,408</u>	<u>-</u>
Total	<u>\$ 34,090,453</u>	<u>\$ 33,873,045</u>	<u>\$ -</u>	<u>\$ 217,408</u>	<u>\$ -</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of year-end for each investment type.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 CASH AND INVESTMENTS (Continued)

Investment Type	Total	Ratings as of Year-End			
		AAA	AA-	A+	Unrated
Primary Government					
Money Market Funds	\$ 1,373,069	\$ 1,373,069	\$ -	\$ -	\$ -
LGIP	32,456,092				32,456,092
	<u>33,829,161</u>	<u>1,373,069</u>	<u>-</u>	<u>-</u>	<u>32,456,092</u>
Fiduciary Fund					
Money Market Funds	43,884	-	-	-	43,884
Variable Annuity	217,408	-	217,408	-	-
	<u>261,292</u>	<u>-</u>	<u>217,408</u>	<u>-</u>	<u>43,884</u>
Total	<u>\$34,090,453</u>	<u>\$ 1,373,069</u>	<u>\$ 217,408</u>	<u>\$ -</u>	<u>\$ 32,499,976</u>

NOTE 3 RECEIVABLES

Receivables, net of allowance for uncollectibles as of year-end for the Town's individual major governmental funds, nonmajor governmental funds in the aggregate are as follows:

	General	Highway			Non-Major
Receivables:	Fund	User	Impact	Capital	Governmental
		Fund	Fees	Improvements	Funds
Taxes	\$ 861,322	\$ 306,137	\$ -	\$ -	\$ -
Interest	32,105	22,070	14,104	-	15,659
Accounts	441,176	18	-	11,581	41,474
Special					
assessments	-	-	-	-	584,622
	<u>1,334,603</u>	<u>328,225</u>	<u>14,104</u>	<u>11,581</u>	<u>641,755</u>
Less:					
Allowance	-	-	-	-	-
Net receivables	<u>\$ 1,334,603</u>	<u>\$ 328,225</u>	<u>\$ 14,104</u>	<u>\$ 11,581</u>	<u>\$ 641,755</u>

The following table summarizes the Town's receivables for the Community Facilities Districts and total governmental funds as of June 30, 2008.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 RECEIVABLES (Continued)

	Community Facilities Districts- Debt Service	Community Facilities Districts- Capital Improvements	Total Governmental Funds
Receivables:			
Taxes	\$ -	\$ -	\$ 1,167,459
Interest	1,836	30	85,804
Accounts	-	-	494,249
Special assessments	4,752,610	-	5,337,232
	<u>4,754,446</u>	<u>30</u>	<u>7,084,744</u>
Less:			
Allowance	-	-	-
Net receivables	<u>\$ 4,754,446</u>	<u>\$ 30</u>	<u>\$ 7,084,744</u>

The following table summarizes the Town's receivables for the enterprise funds as of June 30, 2008.

	Water Fund	Sewer Fund	Sanitation Fund	Total
Receivables:				
Interest	\$ 13,769	\$ 14,319	\$ 1,409	\$ 29,497
Accounts	182,478	129,046	69,302	380,826
	<u>196,247</u>	<u>143,365</u>	<u>70,711</u>	<u>410,323</u>
Less:				
Allowance	(2,503)	(1,486)	(1,762)	(5,751)
Net receivables	<u>\$ 193,744</u>	<u>\$ 141,879</u>	<u>\$ 68,949</u>	<u>\$ 404,572</u>

Revenues of the enterprise funds are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

Uncollectibles related to water	\$ 232
Uncollectibles related to sewer	-
Uncollectibles related to sanitation	-
Total uncollectibles for the current year	<u>\$ 232</u>

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 4 CAPITAL ASSETS

A summary of capital assets activity for the fiscal year ended June 30, 2008 follows.

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 28,113,358	\$ 2,758,086	\$ -	\$ 30,871,444
Construction in progress	1,020,340	3,719,071	-	4,739,411
Total capital assets not being depreciated	29,133,698	6,477,157	-	35,610,855
Capital assets, being depreciated:				
Buildings and improvements	24,399,817	5,743,330	(57,509)	30,085,638
Vehicles, furniture and equipment	5,572,507	472,802	(22,524)	6,022,785
Total capital assets being depreciated	29,972,324	6,216,132	(80,033)	36,108,423
Less accumulated depreciation for:				
Buildings and improvements	(8,921,911)	(1,051,737)	48,635	(9,925,013)
Vehicles, furniture and equipment	(3,494,931)	(538,704)	22,525	(4,011,110)
Total accumulated depreciation	(12,416,842)	(1,590,441)	71,160	(13,936,123)
Total capital assets, being depreciated, net	17,555,482	4,625,691	(8,873)	22,172,300
Governmental activities capital assets, net	<u>\$ 46,689,180</u>	<u>\$ 11,102,848</u>	<u>\$ (8,873)</u>	<u>\$ 57,783,155</u>
Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 394,073	\$ -	\$ -	\$ 394,073
Construction in progress	6,661,667	346,127	(1,150)	7,006,644
Total capital assets not being depreciated	7,055,740	346,127	(1,150)	7,400,717
Capital assets, being depreciated:				
Buildings	5,409,967	-	(10,282)	5,399,685
Improvements other than buildings	4,698,704	-	(13,265)	4,685,439
Vehicles, machinery and equipment	1,782,554	141,753	(56,626)	1,867,681
Total capital assets being depreciated	11,891,225	141,753	(80,173)	11,952,805
Less accumulated depreciation for:				
Buildings	(4,673,163)	(290,149)	15,278	(4,948,034)
Improvements other than buildings	(635,964)	-	-	(635,964)
Vehicles, machinery and equipment	(1,198,584)	(105,974)	52,463	(1,252,095)
Total accumulated depreciation	(6,507,711)	(396,123)	67,741	(6,836,093)
Total capital assets, being depreciated, net	5,383,514	(254,370)	(12,432)	5,116,712
Business-Type activities capital assets, net	<u>\$ 12,439,254</u>	<u>\$ 91,757</u>	<u>\$ (13,582)</u>	<u>\$ 12,517,429</u>

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 4 CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 199,545
Public safety	375,663
Highway and streets	962,530
Culture and recreation	25,000
Community development	27,703
Total depreciation expense	<u>\$ 1,590,441</u>
Business-type activities	
Water	\$ 166,951
Sewer	160,828
Sanitation	68,344
Total depreciation expense	<u>\$ 396,123</u>

NOTE 5 CAPITAL LEASES

The town has entered into lease agreements for capital purchases. This lease provides bargain purchase options and transfer of title at the end of the lease term. The assets have been capitalized at the present value of the future minimum lease payments as of the date of their inception.

The assets acquired through capital lease are as follows:

Asset:	
Machinery and Equipment	\$ 209,340
Less: accumulated depreciation	(209,340)
Total	<u>\$ -</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, were as follows:

Year Ending, June 30	Governmental Activities	
	Principal	Interest
2009	33,408	1,317
2010	22,975	323
Total	<u>\$ 56,383</u>	<u>\$ 1,640</u>

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 6 CERTIFICATES OF PARTICIPATION

On January 30, 1997, certificates of participation totaling \$2,495,000 were issued. The certificates evidence undivided proportionate interests in lease payments to be made under a lease agreement. The proceeds of the certificates were used by the Town for the construction of the town hall and other facilities. The certificates bear interest at rates from 3.75 – 5.40 percent, payable semiannually.

The certificates of participation as of June 30, 2008, will mature as follows:

Year Ending, June 30	Governmental Activities	
	Principal	Interest
2009	\$ 235,000	\$ 19,845
2010	250,000	6,750
Total	<u>\$ 485,000</u>	<u>\$ 26,595</u>

NOTE 7 NOTES PAYABLE

The Town has a note payable to a private party for the purchase of land. The note is payable in annual installments of \$69,748 including interest at 6%. The note is secured by a deed of trust, assignments of rents, security agreement and fixture filings. The balance was \$645,530 at June 30, 2008.

In December 2006, the Town signed a \$75,000 real estate contract with the Florence Preservation Foundation for the purchase of the Silver King Hotel located in Florence, Arizona. The Town paid \$25,000 at closing. An annual installment of \$25,000 was paid in 2008 with the final annual installment of \$25,000 to be paid in 2009. No interest is computed.

The Town signed a promissory note from the Water Infrastructure Finance Authority (WIFA) to be used for construction of a new sewer plant. As of June 30, 2008, the Town could borrow up to \$7,500,000. As of June 30, 2008, the Town has an outstanding balance of \$6,203,819. Payments are due semi-annually including interest at 3.339%.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7 NOTES PAYABLE (Continued)

The annual debt service requirements to maturity as of June 30, 2008, are as follows:

Year Ending, June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 56,016	\$ 38,732	\$ 329,596	\$ 198,351
2010	32,877	36,871	340,601	195,869
2011	34,849	34,898	351,974	184,307
2012	36,940	32,807	363,726	172,359
2013	39,157	30,591	375,871	160,011
2014 - 2018	233,974	114,764	2,076,202	599,917
2019 - 2023	236,716	36,004	2,365,849	221,817
Total	<u>\$ 670,530</u>	<u>\$ 324,667</u>	<u>\$ 6,203,819</u>	<u>\$ 1,732,631</u>

NOTE 8 BONDS PAYABLE

Bonds payable at June 30, 2008, consisted of the outstanding special assessment bonds presented below.

The bonds issued in 1994 to acquire Arizona Sierra Utility have an outstanding principal of \$695,000. The bonds are secured and payable from special assessments levied against the real property benefited by said improvements. If the assessments are not paid, the properties subject to such assessments are sold at auction. If there is no purchaser for any property offered for sale, the Town will get ownership of the property subject to any tax liens and will be liable for the remaining debt. The Town Council is required to appropriate from the General Fund of the Town the amount of the total unpaid assessments or the amount of each semiannual assessment until the total debt is paid.

Community Facilities Districts (CFDs), special purpose districts created specifically to acquire or construct public infrastructure within specified areas of the Town, are authorized under state law to issue General Obligation (GO) bonds to be repaid by property taxes levied on property within the districts. CFDs are created by petition of the Town Council by property owners within the area to be covered by the district and debt may be issued only after approval of the voters within the district.

In June 2006 the Merrill Ranch Community Facilities District #2 issued \$2,464,000 of GO bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 8 BONDS PAYABLE (Continued)

In June 2006 the Merrill Ranch Community Facilities District #1 issued \$2,555,000 of GO bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district.

In November 2006 the Merrill Ranch Community Facilities District #1 issued \$194,000 of GO bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district.

In October 2006 the Merrill Ranch Community Facilities District #2 issued \$251,000 of GO bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district.

A summary of long-term bond debt payable at June 30, 2008, follows:

Description	Interest Rate	Maturity	Outstanding Principal June 30, 2008	Due Within One Year
Special Assessment	8.45%	01/01/19	\$ 695,000	\$ 40,000
Special Assessment	4.30 - 5.30%	07/01/30	2,520,000	59,000
Special Assessment	4.30 - 5.30%	07/01/30	2,447,000	59,000
CFD GO Bond #1	5.40%	07/15/31	187,000	4,000
CFD GO Bond #2	5.30%	07/01/31	242,000	5,000
Total			<u>\$ 6,091,000</u>	<u>\$ 167,000</u>

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 9 CHANGES IN LONG-TERM LIABILITIES

Annual debt service requirements to maturity on governmental bonds payable at June 30, 2008 are summarized as follows:

Fiscal year ending June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 167,000	\$ 333,311
2010	179,000	324,096
2011	184,000	314,002
2012	195,000	303,522
2013	215,000	292,140
2014 - 2018	1,243,000	1,256,893
2019 - 2023	1,210,000	873,899
2024 - 2028	1,522,000	524,930
2029 - 2033	1,176,000	98,730
Total	<u>\$ 6,091,000</u>	<u>\$4,321,520</u>

Long-term liabilities activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable	\$ 6,199,000	\$ -	\$ 108,000	\$ 6,091,000	\$ 167,000
Notes payable	724,790	-	54,260	670,530	56,016
Certificates of participation	710,000	-	225,000	485,000	235,000
Capital leases	88,885	-	32,503	56,382	33,408
Compensated absences	199,799	221,604	135,106	286,297	286,297
Governmental activities long-term liabilities	<u>\$ 7,922,474</u>	<u>\$ 221,604</u>	<u>\$ 554,869</u>	<u>\$ 7,589,209</u>	<u>\$ 777,721</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Notes payable	\$ 5,293,488	\$ 1,229,277	\$ 318,946	\$ 6,203,819	\$ 329,596
Compensated absences	20,383	95,691	85,076	30,998	30,998
Business-type activities long-term liabilities	<u>\$ 5,313,871</u>	<u>\$ 1,324,968</u>	<u>\$ 404,022</u>	<u>\$ 6,234,817</u>	<u>\$ 360,594</u>

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 10 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At June 30, 2008, there were the following interfund balances.

Interfund receivable/payable:

Fund	Receivable Amount	Payable Amount
Capital Improvements	\$ 150,000	\$ -
Sanitation	-	150,000
Total	<u>\$ 150,000</u>	<u>\$ 150,000</u>

Interfund transfers:

Fund	Transfers Out	Transfers In
General Fund	\$ 124,740	\$ 729,992
Highway User	287,609	-
CFD Debt Service	8,650	1,805
CFD Capital Improvements	1,805	8,650
Capital Improvements	45,382	-
Non-Major Governmental Funds	51,867	106,401
Water	163,147	34,356
Sewer	228,448	11,538
Sanitation	70,908	-
Non-Major Enterprise Funds	83,262	173,076
Total	<u>\$ 1,065,818</u>	<u>\$ 1,065,818</u>

All transfers made during the year were routine in nature and consistent with the activities of the fund making the transfer.

NOTE 11 RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member.

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has authority to assess its members additional premiums should reserve and annual premiums be insufficient to meet the pool's obligations.

The Town is insured by the Workers' Compensation Insurance Fund for potential worker-related accidents.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 12 CONTINGENT LIABILITIES

Federal and State grants and loans – The Town has received a number of grants and loans from both the Federal and State governments. Although the programs have been audited, not all audits have been approved as of June 30, 2008; however, the Town expects no material disallowances of expenditures.

NOTE 13 RETIREMENT PLANS

All full-time Town employees are covered by one of two contributory retirement and pension plans, which are administered by the State of Arizona under State Statute.

Arizona State Retirement Plan

Plan Description - The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefits pension plan that covers general employees of the Town. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. ASRS issues a publicly available report that includes financial statements and required supplementary information. The report may be obtained in writing at ASRS, 3300 Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910 or by calling 602-240-2200 or 1-800-621-3778.

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the years ended June 30, 2008, 2007 and 2006 active ASRS members and the Town were each required by statute to contribute at the actuarially determined rates of 9.6, 9.1 and 7.4 percent (rate includes .50 for long-term disability) respectively of the member's annual covered payroll. The Town's contributions to ASRS for the years ended June 30, 2008, 2007, and 2006 were \$389,336, \$292,965, and \$195,721, respectively, which were equal to the required contributions for the year.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 13 RETIREMENT PLANS (Continued)

Arizona Public Safety Personnel Retirement System

Plan Description - The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 167 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The Town contributes to one PSPRS plan for police and one for firefighters. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. PSPRS issues a publicly available report that includes financial statements and required supplementary information. The report may be obtained in writing at PSPRS, 1020 East Missouri Avenue, Phoenix, Arizona 85014 or by calling 602-255-5575.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the year ended June 30, 2008, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 6.78% and 7.22% for covered payroll totaling \$1,400,327 and \$1,120,843 to the Plan for the Police and Firefighters, respectively.

The most recent actuarial valuation available is for fiscal year end June 30, 2007.

Annual Pension Cost - The Town's pension cost for the agent plan for the year ended June 30, 2007, and related information follows:

	<u>PSPRS – Police</u>	<u>PSPRS - Fire</u>
Actuarial valuation date	June 30, 2007	June 30, 2007
Actuarial cost method	Projected Unit Cost	Projected Unit Cost
Actuarial assumptions:		
Investment rate of return	8.5%	8.5%
Projected salary increases	5.5 – 8.5%	5.5 – 8.5%
Includes inflation at cost-of-living adjustment	5%	5%
Amortization method	Level Percent Open	Level Percent Open
Remaining amortization period	Open 20 Years	Open 20 Years
Asset valuation method	Smoothed Market	Smoothed Market
Post retirement benefit increases	Based on Income	Based on Income

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 13 RETIREMENT PLANS (Continued)

Trend Information - Information for the PSPRS plan as of the most recent actuarial valuations follows:

Plan	Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS - Police	2007	\$ 60,525	100.0%	-
	2006	43,042	100.0%	-
	2005	18,941	100.0%	-
PSPRS - Fire	2007	37,170		
	2006	25,520	100.0%	-
	2005	33,764	100.0%	-

Funding Progress - An analysis of funding progress for each of the agent plan as most recent actuarial valuations, June 30, 2008 follows:

PSPR - Florence Police Plan:

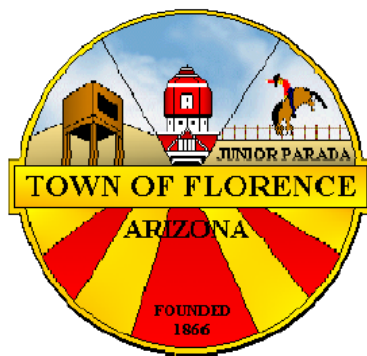
Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funding Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percent of Covered Payroll ([b-a]/c)
2007	\$ 2,203,084	\$ 2,261,965	\$ (58,881)	97.4%	\$ 1,219,892	4.8%
2006	2,146,461	1,930,848	215,613	111.2%	1,230,733	0%
2005	1,939,292	1,572,005	367,287	123.4%	769,972	0%

PSPR - Florence Fire Plan:

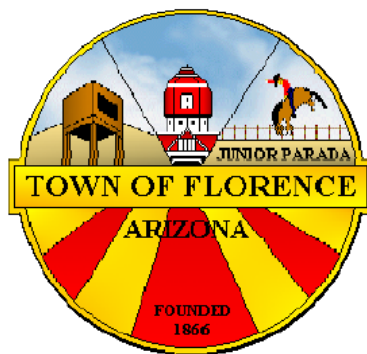
Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funding Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percent of Covered Payroll ([b-a]/c)
2007	\$ 705,178	\$ 547,507	\$ 157,671	128.8%	\$ 618,405	0%
2006	486,597	324,180	162,417	150.1%	511,854	0%
2005	408,330	229,415	178,915	178.0%	411,205	0%

NOTE 14 SUBSEQUENT EVENTS

The Town's investments are held by the Arizona State Treasurer in the Local Government Investment Pool 5. On September 15, 2008, the Town received notification that an investment held by the pool, Lehman Brothers Holding Inc., filed for Chapter 11 reorganization. The Town's pro-rata share of the Lehman Brothers Holding's bonds totaled \$413,368, so the State Treasurer reduced the Town's investments by the same amount.



COMPLIANCE REPORT





REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

The Honorable Mayor and Council
Town of Florence, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Florence (the "Town"), as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's, internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Florence's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town of Florence's internal control. We consider the deficiencies described in the accompanying schedule of findings 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

Tempe
2055 E. Warner Road
Suite 101
Tempe, AZ 85284-3487
(480) 839-4900
Fax (480) 839-1749

Scottsdale
7098 E. Cochise Road
Suite 100
Scottsdale, AZ 85253-4517
(480) 483-1170
Fax (480) 483-7126

Casa Grande
711 E. Cottonwood Lane
Suite C
Casa Grande, AZ 85222-2725
(520) 836-8201
Fax (520) 426-9432

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 2008-1 and 2008-2 to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Town of Florence's response to the findings in our audit is described in the accompanying schedule of findings. We did not audit Town of Florence's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "H. J. H. up".

September 22, 2008
Casa Grande, Arizona

TOWN OF FLORENCE
SCHEDULE OF AUDIT FINDINGS
JUNE 30, 2008

Government Auditing Standards Findings

2008-1 Segregation of Responsibilities

Condition: The limited number of personnel prevents a proper segregation of accounting functions necessary to assure adequate internal controls.

Criteria: Accounting functions should be properly segregated in order to assure adequate internal controls.

Effect: Concentrations of duties in a limited number of personnel could create control situations which would allow personnel to misappropriate assets.

Cause: There is a limited number of personnel responsible for the accounting functions.

Recommendation: Management should be constantly aware of this condition and realize that concentrations of duties in a limited number of personnel could create control situations which would allow personnel to misappropriate assets.

Management's response: Change in procedures have already been implemented.

2008-2 Year-end Closing Procedures

Condition: It was noted that the Town did not have sufficient controls in place to record the acceptance and acquisition of capital assets.

Criteria: Generally accepted accounting principles require that capital assets be recorded when possession of the asset is taken.

Effect: Capital assets were not properly stated at year-end.

Cause: Adequate support documentation for the purchase or acceptance of capital assets is not provided to the finance department on a timely basis.

Recommendation: The Town should have controls in place to ensure that supporting documentation for the purchase or acceptance of capital assets is provided to the finance department on a timely basis.

Management's response: The Town's Capital Asset Policy and Purchasing Policy will be amended to correct current procedures by December 31, 2008. The Purchasing Policy will change to include a cut-off time when capital purchases can be made prior to year-end. Though clearly stated in the Capital Asset Policy that assets must be recorded in the fiscal year they are acquired and adequate notification is given to the departments, we will amend the Capital Asset Policy to state an exact amount of time after acquisition for deliver of asset and valuation to the finance department.